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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Review Of The National Credit Union Administration Central Liquidity Facility's Financial Statements For The Year Ended September 30, 1981

GAO reviewed the report on the audit of the National Credit Union Administration Central Liquidity Facility's (CLF's) fiscal 1981 financial statements and the work of CLF's independent certified public accountant. GAO found nothing to indicate that the opinion of CLF's independent accountant is inappropriate or cannot be relied on.

In the opinion of CLF's independent accountant, CLF's financial statements present fairly its financial position at September 30, 1981, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



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GAO/AFMD-82-117  
OCTOBER 5, 1982

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-202052

To the President of the Senate and the  
Speaker of the House of Representatives

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was established by the Congress in 1978 to improve general financial stability by meeting the liquidity needs of credit unions. It exists within the NCUA and is managed by the NCUA Board.

The National Credit Union Central Liquidity Facility Act (12 U.S.C. 1795h) requires the Comptroller General to audit CLF under such rules and regulations as the Comptroller General may prescribe. However, Price Waterhouse, a certified public accounting firm, audited and rendered an opinion on CLF's fiscal 1981 financial statements. In the opinion of Price Waterhouse, CLF's financial statements present fairly the financial position of CLF at September 30, 1981, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In order to avoid duplication and unnecessary expense, and to make the best use of our limited resources, we believe that we can best discharge our legal responsibilities by reviewing and, to the extent appropriate, relying on the work and report of CLF's independent certified public accountant. We believe this approach provides a reasonable and cost effective means of assuring the Congress that CLF's activities are fairly presented.

Accordingly, we reviewed the workpapers and audit report of Price Waterhouse to determine the quality of its work and the extent to which we could rely on it. We performed such tests of its workpapers and audit report as we considered necessary to ensure that:

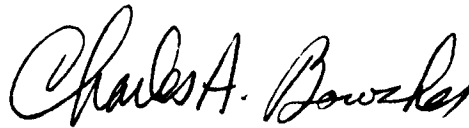
- CLF's fiscal 1981 financial statements were prepared in accordance with generally accepted accounting principles.
- Price Waterhouse's audit was made in accordance with generally accepted auditing standards.

--Price Waterhouse had established the necessary procedures to comply with other applicable professional standards.

We conducted our review at Price Waterhouse's office in Washington, D.C.

During our review of Price Waterhouse's workpapers and audit report, nothing came to our attention that would indicate that Price Waterhouse's opinion on CLF's fiscal 1981 financial statements was inappropriate or cannot be relied on. We, therefore, transmit to the Congress, Price Waterhouse's opinion and CLF's fiscal 1981 financial statements, which are included as appendix I.

We are sending copies of this report to the Director of the Office of Management and Budget and to the National Credit Union Administration Board.

A handwritten signature in cursive script, reading "Charles A. Bowsher".

Comptroller General  
of the United States

NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY  
REPORT AND FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
SEPTEMBER 30, 1981 AND 1980





1801 K STREET NW  
WASHINGTON DC 20006  
202 296-0800

November 20, 1981

To the Board of the National Credit  
Union Administration and  
the National Credit Union Administration  
Central Liquidity Facility

In our opinion, the accompanying balance sheets and the related statements of operations and retained earnings and of changes in financial position present fairly the financial position of the National Credit Union Administration Central Liquidity Facility at September 30, 1981 and 1980, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse*

NATIONAL CREDIT UNION ADMINISTRATIONCENTRAL LIQUIDITY FACILITYBALANCE SHEETS

(Expressed in thousands of dollars)

	<u>September 30</u>	
	<u>1981</u>	<u>1980</u>
<u>ASSETS</u>		
Loans to members (Note 4)	\$101,025	\$ 85,467
Investments (Note 5)	79,112	55,730
Cash	6	8
Accrued interest receivable	4,737	3,162
Furniture and office equipment, at cost less accumulated depreciation of \$6 and \$2	22	26
Other assets, principally organization costs less accumulated amortization of \$409 and \$150	1,014	1,215
Total assets	<u>\$185,916</u>	<u>\$145,608</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities		
Notes payable (Note 6)	\$101,273	\$ 89,932
Member deposits (Note 7)	14,131	5,392
Accrued interest payable	2,810	1,735
Accounts payable and other liabilities	166	305
Total liabilities	<u>118,380</u>	<u>97,364</u>
Commitments (Note 11)		
Equity		
Capital stock - required	67,342	66,489
less unpaid portion at September 30, 1980 (Note 7)		(18,343)
Retained earnings	194	98
Total equity	<u>67,536</u>	<u>48,244</u>
Total liabilities and equity	<u>\$185,916</u>	<u>\$145,608</u>

NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY  
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS  
 (Expressed in thousands of dollars)

	<u>Year ended September 30</u>	
	<u>1981</u>	<u>1980</u>
Income		
Interest on loans to members	\$10,250	\$5,283
Income from investments	11,105	3,259
Total income	<u>21,355</u>	<u>8,542</u>
Expenses		
Interest	10,682	4,606
Salaries and employee benefits		
(Note 10)	440	345
Other general and administrative	757	515
Total expenses	<u>11,879</u>	<u>5,466</u>
Income before federal income taxes	<u>9,476</u>	<u>3,076</u>
Federal income taxes (Note 9)	46	47
Net income	<u>9,430</u>	<u>3,029</u>
Dividends to members (Note 7)	<u>9,334</u>	<u>2,931</u>
Addition to retained earnings	96	98
Retained earnings at beginning of period	98	
Retained earnings at end of period	<u>\$ 194</u>	<u>\$ 98</u>

NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY  
STATEMENTS OF CHANGES IN FINANCIAL POSITION  
 (Expressed in thousands of dollars)

	<u>Year ended September 30</u>	
	<u>1981</u>	<u>1980</u>
Financial resources were provided by:		
Operations		
Net income	\$ 9,430	\$ 3,029
Add: Depreciation and amortization	263	152
	<u>9,693</u>	<u>3,181</u>
Issuance of required capital stock	23,073	48,249
Addition to member deposits	25,700	57,777
Borrowings	133,206	194,913
Matured investments	1,002,335	336,624
Loan repayments	52,022	115,265
	<u>\$1,246,029</u>	<u>\$756,009</u>
Total financial resources provided		
	<u>\$1,246,029</u>	<u>\$756,009</u>
Financial resources were used for:		
Redemption of required capital stock	\$ 3,877	\$ 103
Withdrawal of member deposits	16,961	52,385
Dividends	9,334	2,931
Borrowings repayments	121,865	104,981
Investments purchased	1,025,717	392,354
Loan disbursements	67,580	200,732
Organization costs		1,297
Other, net	695	1,226
	<u>\$1,246,029</u>	<u>\$756,009</u>
Total financial resources used		
	<u>\$1,246,029</u>	<u>\$756,009</u>

NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 1981 AND 1980

Note 1 - Organization and Purpose

The National Credit Union Administration Central Liquidity Facility ("the CLF") was created by the National Credit Union Central Liquidity Facility Act ("the Act"). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. It exists within the National Credit Union Administration and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions.

Note 2 - Significant Accounting Policies

Basis of Accounting

The CLF maintains its accounting records on the accrual basis of accounting.

Allowance for Possible Loan Losses

Loans to members are made on both a short-term and long-term basis. The CLF obtains an unperfected security interest in the assets of the borrower on all short-term loans. All long-term loans are collateralized by securities. Accordingly, at September 30, 1981 and 1980 no allowance for possible loan losses was deemed necessary.

Investments

All of the CLF's investments are short-term with no maturities in excess of one year. These investments are recorded at cost which approximates market value.

Furniture and Office Equipment

Furniture and office equipment are stated at cost. Depreciation is computed on a straight-line method over estimated useful lives of 10 years for furniture and 3 years for office equipment.

Organization Costs

Organization costs have been capitalized and are being amortized on a straight-line basis over a period of five years.

Note 3 - Government Regulations

The CLF was created by Federal law and is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in federally insured financial institutions and shares and deposits in credit unions. Borrowing is limited to the lesser of \$600 million (\$300 million for fiscal year 1980) or twelve times equity and capital subscriptions on-call. For fiscal year 1981, gross lending activity was limited to \$4.4 billion. At September 30, 1981 and 1980, the CLF was in compliance with these limitations.

Note 4 - Loans to Members

Loans are made only to member credit unions. These loans carry interest rates which ranged from 9.95% to 19.75% at September 30, 1981 and 9.95% to 12.07% at September 30, 1980. As of September 30, 1981, the loans mature as follows (dollars in thousands):

<u>Maturing in fiscal year</u>	
1982	\$ 13,122
1983	3,600
1984	78,613
1985	4,700
1986	990
	<u>\$101,025</u>

The CLF may also provide members with 90-day loan commitments. At September 30, 1981 there were approximately \$500,000 in outstanding commitments.

Note 5 - Investments

Funds not currently required for operations were invested as follows (dollars in thousands):

	<u>September 30</u>	
	<u>1981</u>	<u>1980</u>
Time deposits	\$63,000	
Certificates of deposit	9,998	\$45,125
Share certificates of members	6,114	9,696
Repurchase agreements		909
	<u>\$79,112</u>	<u>\$55,730</u>

Note 6 - Notes Payable

As of September 30, 1981 substantially all of the CLF's borrowings have been from the Federal Financing Bank. The interest rates on these obligations are fixed and range from 9.5% to 16.6% at September 30, 1981 and 8.4% to 11.3% at September 30, 1980. Interest is generally payable in semi-annual installments while principal amounts are due upon maturity. As of September 30, 1981, these notes mature as follows (dollars in thousands):

<u>Maturing in fiscal year</u>	
1982	\$ 13,370
1983	3,600
1984	78,613
1985	4,700
1986	990
	<hr/>
	\$101,273
	<hr/>

The Secretary of the Treasury is authorized by the Act to lend up to \$500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance in Congressional Appropriation Acts. As of September 30, 1981, no portion of this amount has been appropriated. Subsequent to September 30, 1981, Congress, pursuant to a Continuing Resolution scheduled to expire December 15, 1981, authorized the Secretary of the Treasury to lend up to \$100 million to the CLF pursuant to this authority.

Note 7 - Capital Stock and Member Deposits

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of

their paid-in and unimpaired capital and surplus, one-half of which amount is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one half of which amount is required to be remitted to the CLF. In both cases the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus.

Member deposits represent amounts remitted by members over and above the amount required for membership. Dividends are declared and paid on both required capital stock and member deposit accounts.

The unpaid portion of required capital stock due at September 30, 1980 was collected in full subsequent to that date.

Note 8 - Services Provided by the National Credit Union  
Administration

The National Credit Union Administration provides the CLF with miscellaneous services and supplies. In addition, the employees of the CLF are paid by the National Credit Union Administration. The CLF reimburses the National Credit Union Administration on a monthly basis for these items.

Note 9 - Federal Income Taxes

Legislation has been proposed in Congress that would exempt the CLF from income taxes retroactive to October 1, 1979 (inception date). Pending the passage of this legislation, the

CLF has filed the appropriate federal income tax return for fiscal 1980 and has made estimated tax payments for fiscal 1981.

Subsequent to September 30, 1981, the CLF received an opinion from outside legal counsel that it is not liable for income taxes since it operates as an activity of the United States government. Based on this opinion, the CLF filed for a refund of all previously paid federal income taxes.

Until the legislation has been passed or a determination has been made by the Internal Revenue Service as to the tax status of the CLF, a provision for federal income taxes has been made in the financial statements.

Taxable income differs from net income as shown in the Statement of Operations primarily by the amount of dividends paid to members which are deducted as an expense for tax purposes.

#### Note 10 - Pension Plan

The employees of the CLF are participants in the Civil Service Retirement Plan. The Plan is a contributory defined benefit pension plan covering substantially all of the employees of the CLF. Pension expense for the years ended September 30, 1981 and 1980 was approximately \$26,900 and \$21,200, respectively.

#### Note 11 - Lease

The CLF leases office space jointly with the National Credit Union Administration under a non-cancellable lease expiring in 1994. Under the terms of this lease, the CLF and the National Credit Union Administration are jointly and severally liable for

future minimum lease payments as of September 30, 1981 as follows (dollars in thousands):

<u>Year ended September 30</u>	
1982	\$ 886
1983	886
1984	886
1985	964
1986	980
Thereafter	8,108
	<u>\$12,710</u>

The CLF's portion of these lease payments (rent expense) for the years ended September 30, 1981 and 1980 was \$38,400 and \$28,800, respectively.



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